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STATEMENT OF

ALLAN I. MENDELOWITZ
ASSOCIATE DIRECTOR, NATIONAL SECURITY
AND INTERNATIONAL AFFAIRS DIVISION

BEFORE THE

HOUSE COMMITTEE ON GOVERNMENT OPERATIONS
SUBCOMMITTEE ON COMMERCE, CONSUMER, AND MONETARY AFFAIRS

ON

DEPARTMENT OF COMMERCE
EXPORT PROMOTION ACTIVITIES

Mr. Chairman and Members of the Subcommittee:

I am pleased to testify on our recent work relating to the export promotion activities carried out by the Commerce Department. Export assistance to U.S. firms includes the overseas export support services and commercial reporting performed by the Foreign Commercial Service (FCS), the centralized strategic planning and processing activities performed by the International Trade Administration (ITA) in Washington, and the assistance provided to individual prospective exporters performed by ITA's U.S. Commercial Service district offices. We reviewed the

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operations of the FCS in 1981-82 and reported on these in October 1982.¹ For these hearings, we obtained information as to the progress Commerce has made since then in improving FCS operations and in implementing our recommendations. At your request, we are also in the process of reviewing ITA's district offices to assess the usefulness of the export services they provide to U.S. businesses.

OPERATION OF THE FOREIGN
COMMERCIAL SERVICE

On April 1, 1980, the President transferred primary responsibility for overseas commercial work from the State Department to the Commerce Department, which created the FCS. With this reorganization, it was expected that U.S. exporters would have the assistance of a unified export promotion system and a motivated, well-trained, and effective overseas commercial staff to help meet competition in world markets.

Our report on the FCS described how numerous resource and policy problems hindered FCS' first years of operations and caused uneven progress toward the goal of revitalizing commercial work overseas. At the time, many of the problems were a direct result of a poorly arranged transfer of the commercial work from the Department of State to Commerce and a headquarters staff

¹"Problems Hamper Foreign Commercial Service's Progress,"
GAO/ID-83-10, October 18, 1982.

lacking sufficient positions and the experience necessary to start up and operate an organization of FCS' size. } Consequently, FCS headquarters was not prepared to meet the day-to-day requirements of supporting the overseas operations, then consisting of 162 officers and 489 foreign service nationals in 65 countries, while at the same time creating and routinizing the administrative systems necessary to manage the FCS.

Improvements at FCS headquarters

Before discussing the steps taken by FCS to address our report recommendations, I would like to briefly discuss current FCS headquarters operations. During follow-up visits to prepare for these hearings, we noted an improvement in the ability of FCS headquarters to manage its overseas operations. With better organization and larger staff, headquarters operations are apparently now running more efficiently. A number of confidential interviews held with overseas staff passing through Washington confirmed our observations and indicated their general satisfaction with the quality of headquarters support. This contrasts appreciably with the period encompassing our original report, when a high level of frustration with headquarters support was evident.

We believe this improvement can be attributed essentially to the following factors: first, headquarters staffing levels have now been increased to a level commensurate with managing an overseas operation the size of the FCS. Headquarters currently

consists of 29 permanent staff members compared to 17 permanent positions at the time FCS was established. Second, these additional permanent positions eliminated the need to rely on short-term detailees, thereby allowing headquarters staff to build experience and maintain continuity. We cannot stress too heavily the importance of maintaining a permanent cadre of professionals at FCS headquarters. To the extent that commercial officers serve tours in Washington, we believe tours should be set long enough--for example, 2 to 3 years--in order to avoid disruptions to headquarters operations resulting from rapid staff turnovers, a problem we noted in our previous review.

FCS actions on report recommendations

Our report recommendations addressed the following three areas: (1) relations between the State Department's economic section and the FCS at overseas posts, (2) the administrative reporting burden, and (3) the delivery of certain commercial services to the American business community. While the FCS has taken steps to resolve some of the problems, difficulties may still remain--particularly in the area of economic section/FCS relations at the posts.

Continuing frictions between FCS and State Department overseas

When the transfer of commercial work from State to Commerce was implemented, a Departmental Memorandum of Understanding (MOU) was drawn up between State and Commerce which was intended to

elevate the status and importance of commercial work and establish a Foreign Commercial Service independent of State's economic sections. In practice, however, we found that a number of posts were not abiding by the MOU since the economic sections continued to exert control over commercial operations. This was particularly apparent in those countries where the senior economic officer outranked the senior commercial officer. We felt that this situation should be remedied, because one of the primary reasons for the transfer of authority to Commerce in the first place was the perception that State was not giving sufficient attention to commercial affairs. A related problem was poor coordination between the economic sections and the FCS, resulting in duplicative reporting and in a failure to keep each other apprised of mutually important meetings.

To remedy these problems we recommended that the Secretaries of State and Commerce direct the ambassadors at FCS posts to fully abide by the provisions of the MOU as well as improve post coordination by requiring a regular interchange of information between the economic section and the FCS. In response to our recommendation, a joint State/Commerce cable was sent to all diplomatic and consular posts in March 1983 reaffirming the force of the MOU and emphasizing the need for close coordination between the economic sections and the FCS.

Nevertheless, not all posts responded quickly. One continued to assign supervisory authority over the FCS to the Economic

Minister until this past June. At that time a personal grievance suit filed by the senior FCS officer in March 1982 and alleging noncompliance with the MOU was finally settled. Even apparently minor issues can be problematic in this area. For example, it was only in the spring of 1982, more than two years after the reorganization, that the post agreed to change the title of the senior economic officer from Minister/Counselor for Economic and Commercial Affairs to Economic Minister. The retention of the original title caused needless confusion among the business community as to who was primarily responsible for commercial affairs, and it was symbolic of the continued control by the economic section over commercial affairs.

Although we have not had the time to assess current intra-embassy relations on a system wide basis, we have noted other instances of continuing friction between the economic section and the FCS. In one country the senior economic officer appears to have taken over many commercially-related responsibilities from the lower-ranking senior commercial officer. At another post the concern remains that the senior economic officer retains too much authority over the activities of the senior commercial officer and that the economic section is acting independently of the FCS in areas intended for the FCS.

These examples of continuing problems may or may not evidence the perpetuation of the problems noted in our review, since we do not have complete information on how widespread such

occurrences are. However, as FCS achieves its envisioned status, one thing is clear: establishing separate entities responsible for commercial and economic activities has increased the importance of working cooperatively. While for some matters economic and commercial work are easily distinguishable, there are also grey areas which are neither entirely economic nor commercial. It is in these areas that the FCS and State Department's economic section must accommodate each other and cooperate.

With respect to the efforts to elevate the status of commercial work, it should be noted that FCS officers are somewhat disadvantaged relative to economic officers. The highest rank that can be conferred on a senior commercial officer is lower than the rank that can be achieved by a senior economic officer. As a result, in major posts the economic minister currently outranks the commercial counselor. This difference in rank can contribute to supervisory arrangements that run counter to the MOU.

Reductions in administrative burdens

With regard to the excessively heavy administrative burden placed upon the posts, we recommended that the FCS seek to reduce the detail required in the Post Commercial Action Plans (PCAP), which are annual projections of staff weeks to be allotted to all post activities. FCS has taken some steps to reduce the level of detail and has issued guidelines for allocating time for overseas activities. These guidelines limit the amount of time allocated for planning and administration to 10 percent of total staff time

overseas and are a step in the right direction--toward placing greater emphasis on increasing staff time available for servicing the needs of U.S. exporters.

Other opportunities for reducing time spent on activities not specifically related to export promotion should be identified. For example, reporting requirements that duplicate work done by the economic section can be dropped without adverse consequences.

Improvements in certain business
information services

Our last set of report recommendations addressed the delivery of business information services to U.S. exporters, and I am happy to report that both recommendations have either been implemented or are in the process of implementation. The first such service, known as the Agent Distributor Service or ADS, provides American exporters, for a fee of \$90, a listing of potential agents and distributors who have expressed an interest in marketing their products. The process begins at one of Commerce's 48 district offices, where a client firm fills out an ADS request. We found that this request, rather than being sent directly to the overseas posts, was sent through Commerce headquarters and that Washington was a bottleneck to providing quick and efficient service. We therefore recommended the establishment of direct communication links between the overseas posts and district offices. These links were established in February 1983,

and a spot check of several district offices indicates that processing time has been reduced by one to two months.

Our second recommendation in this area concerns the World Traders Data Reports (WTDR) program. This program provides U.S. businesses with credit checks on foreign firms. We found that FCS devoted a substantial portion of its resources to this program, although similar credit analysis services were available in the private sector in many countries. Given current budgetary constraints and the FCS mandate to aggressively promote U.S. exports, we recommended that the WTDR program be discontinued in those countries where there are suitable private sector alternatives. In response to this recommendation, FCS has determined that adequate private sector alternatives exist in 34 countries and will be phasing out these WTDR programs by the end of fiscal year 1984. Since it took approximately 770 staff weeks to service the WTDR program in those countries in fiscal year 1982, a substantial amount of staff weeks will be available for re-programming.

In addition to discussing FCS' implementation of our report recommendations, I would like to make a couple of observations concerning the increasing demands upon FCS for non-export related services overseas and, secondly, their attempts to reallocate staff worldwide.

Demand for non-export-related services continues to grow

During the course of our initial review and follow-up, we noted an increasing demand for FCS services abroad on Commerce matters that, though important, do not promote U.S. exports. Such matters include: (1) services provided in support of export control legislation and (2) overseas investigative efforts under U.S. statutes to protect U.S. firms from unfair trade practices.

The first category involves the provision of investigative support to Commerce's export administration staff in Washington dealing with actual and proposed shipments of sensitive commodities and technologies to ascertain whether illegal diversion to unauthorized countries is taking place. Demand for FCS' time in this category is expected to increase by as much as 50 percent in fiscal year 1984. There are indications, however, that the amount of staff time devoted to this and related functions is already burdensome. For example, one European post recently notified headquarters that very heavy demands are being made on it for information in export control and other non-export promotion areas.

The second category involves the gathering of data and information needed in the handling of anti-dumping and countervailing duty cases in the United States. For example, as a result of recent complaints filed against European steel manufacturers, a senior foreign service national was required to spend a month

gathering data and information on German steel manufacturers. The demands for such services were apparently so great in Japan that the Commerce Department established additional positions at the embassy, thus obviating the need for FCS to perform this function.

Allocation of FCS staff worldwide

During our prior review we found numerous indications that FCS needed to reallocate its overseas staff, both among and within countries. This conclusion was later supported by an FCS study. Since our review, FCS has had some success in its efforts to achieve a more efficient deployment of resources. For example, in some European countries where we found FCS to be heavily staffed the number of FCS officer and foreign service national positions has been reduced. This has enabled FCS to establish officer positions in countries where they have been understaffed, such as Egypt, Nigeria, and Indonesia.

FCS has also recognized the need to have adequate representation in commercial centers rather than political capitals. Since our report, the senior commercial officer in Australia has moved his operations from Canberra, the political capital, to Sydney, an important commercial center. In addition, a commercial officer position has been established in Toronto, Canada, the commercial and financial center of Ontario Province, which accounts for about 70 percent of Canada's imports from the United States. Finally, officer positions are being established in

Monterrey, Mexico, and Osaka, Japan--two important commercial centers.

An FCS decision to either terminate or add positions at an embassy is not automatic, since the concurrence of the ambassador is required. The need to convince ambassadors of reprogramming decisions appears to have slowed the process and, in at least one case so far, has prevented the establishment of two officer positions. The FCS believes, however, that they have been successful in convincing most of the ambassadors of the merits of Commerce redeployment plans.

EXPORT SERVICES PROVIDED BY
COMMERCE DISTRICT OFFICES

With respect to the export promotion services provided by the U.S. Commercial Service--which is the domestic arm of Commerce's export promotion efforts--we are now in the process of reviewing the usefulness to U.S. businesses of services provided by the USCS.

Commerce's field organization for promoting exports by U.S. firms currently consists of 48 ITA district offices, located throughout the country and staffed by 346 employees, almost half of whom are international trade specialists. These specialists seek to promote exports by counseling individual firms, by arranging seminars designed to highlight export opportunities, and by working with other organizations--state, local, and private--interested in promoting exports. Our review is taking

us into 12 of the 48 district offices, where we are assessing the process for selecting clients they serve, the usefulness of the services provided, and the criteria for measuring the results of their efforts.

Some disagreement presently exists over the value of these district offices. For example, the National Governor's Association, in a 1980 poll of state economic development officials, found the district offices to have been the Commerce export program rated most helpful by the largest number of states, whereas the Grace Commission (the President's Private Sector Survey on Cost Control) reported that the district offices are only marginally effective. Its conclusions were that district office efforts are misapplied to firms with low export potential. The task force also questioned whether the trade specialists' generalist backgrounds give them the expertise needed to serve high export potential firms, and it suggested that U.S. firms could be better served through a Washington-based, industry-specific focus, replacing door-to-door canvassing in the field with "targeted electronic communications."

We believe it is important to examine the usefulness of USCS services--not necessarily because of the funds allocated to the effort, which are relatively small--but because the U.S. should not overlook opportunities to sell its products abroad. If export-capable firms that are not now exporting could through counseling or other promotional activities begin

exporting, it would contribute to the performance of the U.S. economy and to our international balance of trade.

We are examining the planning processes used by the field offices and headquarters leadership, first, to identify the firms with export potential and, second, to establish priorities for working with them to produce the greatest export payoff. We are also evaluating how export plans are being executed and how results are being measured. To do this, we are assessing data drawn from trade specialists' contacts with business firms. We will also be contacting, through questionnaires, firms that have used services in order to establish their value to the firms, and we will be interviewing district staff to determine how effectively they are supported in their efforts.

Since we began our review, Commerce has initiated several major changes affecting the district offices, and we will attempt to evaluate these changes' effectiveness in improving export services. One of these changes is the grouping of the 48 district offices into 10 regions with one of the district directors serving as the regional managing director for the several districts comprising the region.

Another change is the creation of a new position for each region--a business-government relations officer. The individuals filling these positions were recruited from the private sector and report through the regional managing director to the Director of the Commercial Services. One of their major roles is to

work closely with state legislators on export promotion and financing matters, and in helping them develop trade-related legislative proposals.

A third, very recent initiative with potentially far-reaching implications is Commerce's announced plan for "expanded post of duty stations." Under this plan, most of the district offices' trade specialists will be located in host agencies such as state economic development offices and local chambers of commerce. Commerce proposes to place about 150 trade specialists in approximately the same number of host organizations over the next three years to assist in providing export services to the local business community. We hope our review will contribute to the effectiveness of the new organizational structure.

We will report to you further on the results of this ongoing study when we have completed our work.

This concludes my testimony, Mr. Chairman. We will be happy to try to answer any questions you may have.